



REDACTED – FOR PUBLIC INSPECTION

**VIA ECFS**

June 28, 2017

Marlene H. Dortch, Secretary  
Federal Communications Commission  
Office of the Secretary  
445 12th Street, SW  
Room TW-A325  
Washington, DC 20554

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**RE:   Nehalem Telecommunications, SAC 532387  
Submission of FCC Form 481 Annual Report  
WC Docket No. 14-58 – ETC Annual Reports and Certifications**

Dear Ms. Dortch:

In accordance with the annual reporting requirements of 47 C.F.R. §§54.313 and 54.422, Nehalem Telecommunications (“the Company”), Study Area Code 532387, hereby files its FCC Form 481 – Carrier Annual Reporting Data Collection Form. *The version of the Company’s FCC Form 481 submitted via the FCC’s Electronic Comment Filing System (ECFS) is a redacted version of the filing that contains no confidential information.*

Section 3005 of FCC Form 481 requires privately-held rate-of-return carriers receiving high cost support to attach a full and complete annual report of the company’s financial condition and operations pursuant to 47 C.F.R. §54.313(f)(2). Nehalem Telecommunications, by its authorized representative, hereby seeks confidential treatment of its financial annual report pursuant to the March 22, 2016 *Protective Order* in WC Docket Nos. 10-90 and 14-58.<sup>1</sup> The *Protective Order* specifically covers the information required by 47 C.F.R. §54.313(f)(2).

Nehalem Telecommunications is providing to the Office of the Secretary, under seal, this cover letter and the FCC Form 481 filing which includes the confidential information that is being requested to be withheld from public inspection.

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T (972) 387-4300  
F (972) 960-2810

8750 N. Central Expressway  
Suite 300  
Dallas, TX 75231

Assurance, tax, and consulting offered through  
Moss Adams LLP. Wealth management offered through  
Moss Adams Wealth Advisors LLC. Investment banking  
offered through Moss Adams Capital LLC.

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<sup>1</sup> *Connect America Fund, ETC Annual Reports and Certifications*, WC Docket Nos. 10-90 and 14-58, Protective Order, 31 FCC Rcd 2089 (2016).

Each page of the Company's financial annual report and the financial summary page on the FCC Form 481 bear the legend, "CONFIDENTIAL INFORMATION – SUBJECT TO PROTECTIVE ORDER BEFORE THE FEDERAL COMMUNICATIONS COMMISSION."

The confidential information has also been submitted to the Universal Service Administrative Company through its E-File system as attachments to the FCC Form 481.

In the filing submitted via the ECFS, all pages containing confidential information bear the legend "REDACTED – FOR PUBLIC INSPECTION."

This cover letter includes no confidential information and the text is the same in both the non-redacted and redacted versions except for the confidentiality markings.

The FCC Form 481 has also been filed with the relevant state commissions and Tribal governments, as appropriate.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Stuart Polikoff". The signature is fluid and cursive, with the first name "Stuart" and last name "Polikoff" clearly distinguishable.

Stuart Polikoff  
Authorized Representative for  
Nehalem Telecommunications

ss/kr

cc: Mark Martell, Nehalem Telecommunications

**FCC Form 481 - Carrier Annual Reporting  
Data Collection Form**FCC Form 481  
OMB Control No. 3060-0986/OMB Control No. 3060-0819  
July 2013

<010>	Study Area Code	532387
<015>	Study Area Name	NEHALEM TELECOMM.
<020>	Program Year	2018
<030>	Contact Name: Person USAC should contact with questions about this data	Susan
<035>	Contact Telephone Number: Number of the person identified in data line <030>	2083662614 ext.
<039>	Contact Email Address: Email of the person identified in data line <030>	susan.case@ruraltel.org
	Form Type	54.313 and 54.422

<010>	Study Area Code	532387
<015>	Study Area Name	NEHALEM TELECOMM.
<020>	Program Year	2018
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<210> For the prior calendar year, were there any reportable voice service outages? No

Page 2

**(300) Unfulfilled Service Request  
Data Collection Form**FCC Form 481  
OMB Control No. 3060-0986/OMB Control No. 3060-0819  
July 2013

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&lt;300&gt; Unfulfilled service request (voice)

0

&lt;310&gt; Detail on attempts (voice)

Name of Attached Document

&lt;320&gt; Unfulfilled service request (broadband)

0

&lt;330&gt; Detail on attempts (broadband)

Name of Attached Document

(400) Number of Complaints per 1,000 customers Data Collection Form	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
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<010>	Study Area Code	532387
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<030>	Contact Name - Person USAC should contact regarding this data	Susan
<035>	Contact Telephone Number - Number of person identified in data line <030>	2083662614 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	susan.case@ruraltel.org
<400>	Select from the drop-down list to indicate how you would like to report voice complaints (zero or greater) for voice telephony service in the prior calendar year for each service area in which you are designated an ETC for any facilities you own, operate, lease, or otherwise utilize. Offered only fixed voice	
<410>	Complaints per 1000 customers for fixed voice	0 . 0
<420>	Complaints per 1000 customers for mobile voice	
<430>	Select from the drop-down list to indicate how you would like to report end-user customer complaints (zero or greater) for broadband service in the prior calendar year for each service area in which you are designated an ETC for any facilities you own, operate, lease, or otherwise utilize. Offered only fixed broadband	
<440>	Complaints per 1000 customers for fixed broadband	0 . 85
<450>	Complaints per 1000 customers for mobile broadband	

<010>	Study Area Code	532387
<015>	Study Area Name	NEHALEM TELECOMM.
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Susan
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<039>	Contact Email Address - Email Address of person identified in data line <030>	susan.case@ruraltel.org
<500>	Certify compliance with applicable service quality standards and consumer protection rules	Yes
532387OR510 .pdf		
<510>	Descriptive document for Service Quality Standards & Consumer Protection Rules Compliance	
<515>	Certify compliance with applicable minimum service standards	

<b>(600) Functionality in Emergency Situations</b>		FCC Form 481
<b>Data Collection Form</b>		OMB Control No. 3060-0986/OMB Control No. 3060-0819
		July 2013

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<039>	Contact Email Address - Email Address of person identified in data line <030>	susan.case@ruraltel.org
<600>	Certify compliance regarding ability to function in emergency situations	Yes
<610>	Descriptive document for Functionality in Emergency Situations	532387OR610.pdf

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<015>	Study Area Name	NEHALEM TELECOMM.
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<039>	Contact Email Address - Email Address of person identified in data line <030>	susan.case@ruraltel.org

<701>	Residential Local Service Charge Effective Date	1/1/2017
<702>	Single State-wide Residential Local Service Charge	16.6

-- See attached worksheet

<010>	Study Area Code	532387
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[illegible]

**(800) Operating Companies  
Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

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<039>	Contact Email Address - Email Address of person identified in data line <030>	susan.case@ruraltel.org
<810>	Reporting Carrier	Nehalem Telecommunications
<811>	Holding Company	Martell Enterprises, Inc.
<812>	Operating Company	Nehalem Telecommunications

[illegible]

**(900) Tribal Lands Reporting  
Data Collection Form**

 FCC Form 481  
 OMB Control No. 3060-0986/OMB Control No. 3060-0819  
 July 2013

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&lt;900&gt; Does the filing entity offer tribal land services? (Y/N) No

&lt;910&gt; Tribal Land(s) on which ETC Serves

&lt;920&gt; Tribal Government Engagement Obligation

Name of Attached Document

If your company serves Tribal lands, please select (Yes, No, NA) for each these boxes to confirm the status described on the attached PDF, on line 920, demonstrates coordination with the Tribal government pursuant to § 54.313(a)(9) includes:

- <921> Needs assessment and deployment planning with a focus on Tribal community anchor institutions.
- <922> Feasibility and sustainability planning;
- <923> Marketing services in a culturally sensitive manner;
- <924> Compliance with Rights of way processes
- <925> Compliance with Land Use permitting requirements
- <926> Compliance with Facilities Siting rules
- <927> Compliance with Environmental Review processes
- <928> Compliance with Cultural Preservation review processes
- <929> Compliance with Tribal Business and Licensing requirements.

Select Yes or No or Not Applicable

**(1000) Voice and Broadband Service Rate Comparability  
Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

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<039>	Contact Email Address - Email Address of person identified in data line <030>	susan.case@ruraltel.org

<1000> Voice services rate comparability certification Yes

<1010> Attach detailed description for voice services rate comparability compliance 532387OR1010.pdf

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Name of Attached Document

<1020> Broadband comparability certification Yes - Pricing is no more than the most recent applicable benchmark announced by the Wireline Competition Bureau

<1030> Attach detailed description for broadband comparability compliance 532387OR1030.pdf

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Name of Attached Document

**(1100) No Terrestrial Backhaul Reporting  
Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

<010>	Study Area Code	532387
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<030>	Contact Name - Person USAC should contact regarding this data	Susan
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<039>	Contact Email Address - Email Address of person identified in data line <030>	susan.case@ruraltel.org

&lt;1100&gt; Certify whether terrestrial backhaul options exist (Y/N)

Yes

&lt;1130&gt; Please select the appropriate response (Yes, No, Not Applicable) to confirm the reporting carrier offers broadband service of at least 1 Mbps downstream and 256 kbps upstream within the supported area pursuant to § 54.313(g).

**(1200) Terms and Condition for Lifeline Customers**  
**Lifeline**  
**Data Collection Form**

FCC Form 481  
 OMB Control No. 3060-0986/OMB Control No. 3060-0819  
 July 2013

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<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Susan
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<039>	Contact Email Address - Email Address of person identified in data line <030>	susan.case@ruraltel.org

532387OR1210.pdf

<1210> Terms & Conditions of Voice Telephony Lifeline Plans

Name of Attached Document

<1220> Link to Public Website

HTTP

"Please check these boxes below to confirm that the attached document(s), on line 1210, or the website listed, on line 1220, contains the required information pursuant to § 54.422(a)(2) annual reporting for ETCs receiving low-income support, carriers must annually report:

- |        |                                                                                                                       |                                     |
|--------|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| <1221> | Information describing the terms and conditions of any voice telephony service plans offered to Lifeline subscribers, | <input checked="" type="checkbox"/> |
| <1222> | Details on the number of minutes provided as part of the plan,                                                        | <input checked="" type="checkbox"/> |
| <1223> | Additional charges for toll calls, and rates for each such plan.                                                      | <input checked="" type="checkbox"/> |

**(2005) Price Cap Carrier Additional Documentation**

FCC Form 481

**Data Collection Form**

OMB Control No. 3060-0986/OMB Control No. 3060-0819

*Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers*

July 2013

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Select the appropriate responses below (Yes, No, Not Applicable) to note compliance as a recipient of Incremental High Cost support, High Cost support to offset access charge reductions, and Connect America Phase II support as set forth in 47 CFR § 54.313(b),(c),(d),(e). The information reported on this form and in the documents attached below is accurate.

**Incremental Connect America Phase I reporting**

- <2011> 3rd Year Certification 47 CFR §54.313(b)(1)(ii) - Note that for the July 2017 certification, this applies to Round 2 recipients of Incremental Support.
- <2022> Recipient certifies, representing year three after filing a notice of acceptance of funding pursuant to 54.312(c), that the locations in question are not receiving support under the Broadband Initiatives Program or the Broadband Technology Opportunities Program for projects that will provide broadband with speeds of at least 4 Mbps/1Mbps - 54.313(b)(2)(i). Round 2 recipients only.
- <2023> The attachment on line 2024 includes a statement of the total amount of capital funding expended in the previous year in meeting Connect America Phase I deployment obligations, accompanied by a list of census blocks indicating where funding was spent. This covers year three - 54.313(b)(2)(ii). Round 2 recipients only.
- <2024A> Round 2 Recipient of Incremental Support?
- <2024B> Attach list of census blocks indicating where funding was spent in year three - 54.313(b)(2)(ii). Round 2 recipients only.
- <2025A> Round 2 Recipient of Incremental Support?
- <2025B> Attach geocoded Information for Phase I milestone reports (Round 2 for year three) - Connect America Fund , WC Docket 10-90, Report and Order, FCC 13-73, paragraph 35 (May 22, 2013).
- <2015> 2016 and future Frozen Support Certification 47 CFR § 54.313(c)(4)

Name of Attached Document Listing  
Required Information

Name of Attached Document Listing  
Required Information

**(2005) Price Cap Carrier Additional Documentation**

FCC Form 481

**Data Collection Form**

OMB Control No. 3060-0986/OMB Control No. 3060-0819

*Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers*

July 2013

**Price Cap Carrier Connect America ICC Support {47 CFR § 54.313(d)}**

&lt;2016&gt; Certification support used to build broadband

**Connect America Phase II Reporting {47 CFR § 54.313(e)}**

&lt;2017A&gt; Connect America Fund Phase II recipient?

&lt;2017C&gt; Total amount of Phase II support, if any, the price cap carrier used for capital expenditures in 2016.

&lt;2018&gt; Attach the number, names, and addresses of community anchor institutions to which the carrier newly began providing access to broadband service in the preceding calendar year - 54.313(e)(1)(ii)(A)

Name of Attached Document Listing  
Required Information

&lt;2019&gt; Recipient certifies that it bid on category one telecommunications and Internet access services in response to all FCC Form 470 postings seeking broadband service that meets the connectivity targets for the schools and libraries universal service support program for eligible schools and libraries located within any area in a census block where the carrier is receiving Phase II model-based support, and that such bids were at rates reasonably comparable to rates charged to eligible schools and libraries in urban areas for comparable offerings - 54.313(e)(1)(ii)(C)

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Select from the drop down menu or check the boxes below to note compliance with 54.313(f)(1). Privately held carriers must ensure compliance with the financial reporting requirements set forth in 47 CFR 54.313(f)(2). I further certify that the information reported on this form and in the documents attached below is accurate.

(3009)	Progress Report on 5 Year Plan Carrier certifies to 54.313(f)(1)(iii)		
Yes - Attach Certification			
(3010A)	Certification of Public Interest Obligations {47 CFR § 54.313(f)(1)(i)}		532387OR3010.pdf
(3010B)	Please Provide Attachment	Name of Attached Document Listing Required Information	
(3012A)	Community Anchor Institutions {47 CFR § 54.313(f)(1)(ii)}	No - No New Community Anchors	
(3012B)	Please Provide Attachment	Name of Attached Document Listing Required Information	
(3013)	Is your company a Privately Held ROR Carrier {47 CFR § 54.313(f)(2)}	(Yes/No)	<input checked="" type="radio"/> <input type="radio"/>
(3014)	If yes, does your company file the RUS annual report	(Yes/No)	<input type="radio"/> <input checked="" type="radio"/>
Please check these boxes to confirm that the attached PDF, on line 3017, contains the required information pursuant to § 54.313(f)(2) compliance requires:			
(3015)	Electronic copy of their annual RUS reports (Operating Report for Telecommunications Borrowers)		<input type="checkbox"/>
(3016)	Document(s) with Balance Sheet, Income Statement and Statement of Cash Flows		<input type="checkbox"/>
(3017)	If the response is yes on line 3014, attach your company's RUS annual report and all required documentation	Name of Attached Document Listing Required Information	
(3018)	If the response is no on line 3014, is your company audited?	(Yes/No)	<input checked="" type="radio"/> <input type="radio"/>
If the response is yes on line 3018, please check the boxes below to confirm your submission on line 3026 pursuant to § 54.313(f)(2), contains:			
(3019)	Either a copy of their audited financial statement; or (2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers		<input checked="" type="checkbox"/>
(3020)	Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows		<input checked="" type="checkbox"/>
(3021)	Management letter and/or audit opinion issued by the independent certified public accountant that performed the company's financial audit.		<input checked="" type="checkbox"/>
If the response is no on line 3018, please check the boxes below to confirm your submission on line 3026 pursuant to § 54.313(f)(2), contains:			
(3022)	Copy of their financial statement which has been subject to review by an independent certified public accountant; or 2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers		<input type="checkbox"/>
(3023)	Underlying information subjected to a review by an independent certified public accountant		<input type="checkbox"/>
(3024)	Underlying information subjected to an officer certification.		<input type="checkbox"/>
(3025)	Document(s) with Balance Sheet, Income Statement and Statement of Cash Flows		<input type="checkbox"/>
(3026)	Attach the worksheet listing required information	Name of Attached Document Listing Required Information	532387OR3026.pdf

<b>(3005) Rate Of Return Carrier Additional Documentation (Continued)</b>		FCC Form 481
<b>Data Collection Form</b>		OMB Control No. 3060-0986/OMB Control No. 3060-0819
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**Financial Data Summary**

(3027) Revenue

(3028) Operating Expenses

(3029) Net Income

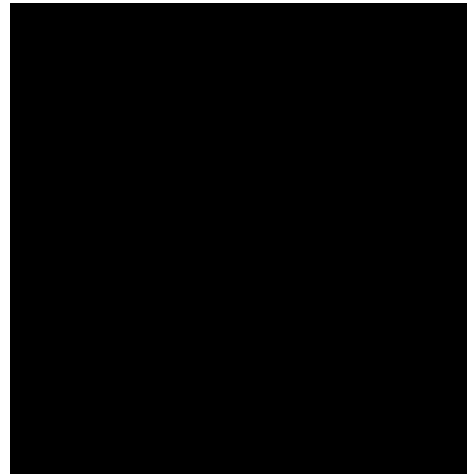
(3030) Telephone Plant In Service(TPIS)

(3031) Total Assets

(3032) Total Debt

(3033) Total Equity

(3034) Dividends



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4005 Rural Broadband Experiment

Authorized Rural Broadband Experiment (RBE) recipients must address the certification for public interest obligations, provide a list of newly served community anchor institutions, and provide a list of locations where broadband has been deployed.

Public Interest Obligations – FCC 14-98 (paragraphs 26-29, 78)

Please address Line 4001 regarding compliance with the Commission’s public interest obligations. All RBE participants must provide a response to Line 4001.

**4001.** Recipient certifies that it is offering broadband to the identified locations meeting the requisite public interest obligations consistent with the category for which they were selected, including broadband speed, latency, usage capacity, and rates that are reasonably comparable to rates for comparable offerings in urban areas?

Community Anchor Institutions – FCC 14-98 (paragraph 79)

**4003a.** RBE participants must provide the number, names, and addresses of community anchor institutions to which they newly deployed broadband service in the preceding calendar year. On this line, please respond (yes – attach new community anchors, no – no new anchors) to indicate whether this list will be provided.

If yes to 4003A, please provide a response for 4003B.

4003b. Provide the number, names and addresses of community anchor institutions to which the recipient newly began providing access to broadband service in the preceding calendar year.

Name of Attached Document Listing Required Information

Broadband Deployment Locations – FCC 14-98 (paragraph 80)

4004a. Attach a list of geocoded locations to which broadband has been deployed as of the June 1st immediately preceding the July 1st filing deadline for the FCC Form 481.

Name of Attached Document Listing Required Information

4004b. Attach evidence demonstrating that the recipient is meeting the relevant public service obligations for the identified locations. Materials must at least detail the pricing, offered broadband speed and data usage allowances available in the relevant geographic area.

Name of Attached Document Listing Required Information

**Certification - Reporting Carrier  
Data Collection Form**

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**TO BE COMPLETED BY THE REPORTING CARRIER, IF THE REPORTING CARRIER IS FILING ANNUAL REPORTING ON ITS OWN BEHALF:**

Certification of Officer as to the Accuracy of the Data Reported for the Annual Reporting for CAF or LI Recipients	
I certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual reporting requirements for universal service support recipients; and, to the best of my knowledge, the information reported on this form and in any attachments is accurate.	
Name of Reporting Carrier:	
Signature of Authorized Officer:	Date
Printed name of Authorized Officer:	
Title or position of Authorized Officer:	
Telephone number of Authorized Officer:	
Study Area Code of Reporting Carrier:	Filing Due Date for this form:
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

<b>Certification - Agent / Carrier Data Collection Form</b>	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
-----------------------------------------------------------------	----------------------------------------------------------------------------------

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**TO BE COMPLETED BY THE REPORTING CARRIER, IF AN AGENT IS FILING ANNUAL REPORTS ON THE CARRIER'S BEHALF:**

Certification of Officer to Authorize an Agent to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I certify that (Name of Agent) <u>Moss Adams LLP</u> is authorized to submit the information reported on behalf of the reporting carrier. I also certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual data reporting requirements provided to the authorized agent; and, to the best of my knowledge, the reports and data provided to the authorized agent is accurate.	
Name of Authorized Agent:	<u>Moss Adams LLP</u>
Name of Reporting Carrier:	<u>NEHALEM TELECOMM.</u>
Signature of Authorized Officer:	<u>CERTIFIED ONLINE</u> Date: <u>06/26/2017</u>
Printed name of Authorized Officer:	<u>Mark Martell</u>
Title or position of Authorized Officer:	<u>Administrative Manager</u>
Telephone number of Authorized Officer:	<u>2083662614 ext.15</u>
Study Area Code of Reporting Carrier:	<u>532387</u> Filing Due Date for this form: <u>07/03/2017</u>
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

**TO BE COMPLETED BY THE AUTHORIZED AGENT:**

Certification of Agent Authorized to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I, as agent for the reporting carrier, certify that I am authorized to submit the annual reports for universal service support recipients on behalf of the reporting carrier; I have provided the data reported herein based on data provided by the reporting carrier; and, to the best of my knowledge, the information reported herein is accurate.	
Name of Reporting Carrier:	<u>NEHALEM TELECOMM.</u>
Name of Authorized Agent Firm:	<u>Moss Adams LLP</u>
Signature of Authorized Agent or Employee of Agent:	<u>CERTIFIED ONLINE</u> Date: <u>06/26/2017</u>
Name of Authorized Agent Employee:	<u>Samantha Simatos</u>
Title or position of Authorized Agent or Employee of Agent	<u>Accounting Technician</u>
Telephone number of Authorized Agent or Employee of Agent:	<u>5097770209 ext.</u>
Study Area Code of Reporting Carrier:	<u>532387</u> Filing Due Date for this form: <u>07/03/2017</u>
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

## Attachments

<b>(700) Price Offerings including Voice Rate Data</b> <b>Data Collection Form</b>	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
---------------------------------------------------------------------------------------	----------------------------------------------------------------------------------

OMB Control No. 3060-0986/OMB Control No. 3060-0819

OMB Control No. 3060-0986/OMB Control No. 3060-0819

<010>	Study Area Code	532387
<015>	Study Area Name	NEHALEM TELECOMM.
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Susan
<035>	Contact Telephone Number - Number of person identified in data line <030>	2083662614 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	susan.case@ruraltel.org

1/1/2017

16.6

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<b>(710) Broadband Price Offerings</b> <b>Data Collection Form</b>	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
-----------------------------------------------------------------------	----------------------------------------------------------------------------------

OMB Control No. 3060-0986/OMB Control No. 3060-0819  
July 2013

<010>	Study Area Code	532387
<015>	Study Area Name	NEHALEM TELECOMM.
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Susan
<035>	Contact Telephone Number - Number of person identified in data line <030>	2083662614 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	susan.case@ruraltel.org

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## **LINE 510 - SERVICE QUALITY STANDARDS AND CONSUMER PROTECTION RULES COMPLIANCE**

Nehalem Communications (“the Company”) complies with applicable service quality standards and consumer protection rules for its voice and broadband services.

The rates, terms, and conditions under which the Company operates are outlined in its local exchange tariff, which is approved by the Oregon Public Utility Commission (“Oregon PUC”). The tariff contains provisions regarding the Company’s customer service and protection practices.

Service quality standards for voice service are established by the Oregon PUC. The Company consistently meets or exceeds those standards and provides reports to the Oregon PUC, in accordance with the Oregon PUC’s rules.

With regard to broadband service, the Company provisions its network and equipment to ensure that its customers can enjoy the speeds to which they subscribe. However, Internet speeds generally result from a “best effort” service and are dependent upon a number of variables, many of which are outside the control of the Company. The Company also complies with the FCC’s Open Internet rules, 47 C.F.R. §§8.3-8.11. These rules prohibit blocking, throttling, and paid prioritization, and also require the Company to publicly disclose information regarding its network management practices, performance, and the commercial terms of its broadband services.

The Company complies with any and all consumer protection obligations under state law.

The Company also complies with the following consumer best practices: (1) the Company discloses its rates and terms of service to customers; (2) the Company provides specific disclosures in its advertising; (3) the Company separately identifies carrier charges from taxes on its billing statements; (4) the Company provides ready access to customer service; (5) the Company promptly responds to consumer inquiries and complaints received from government agencies; and (6) the Company abides by policies for protection of consumer privacy.

Finally, the Company has a policy and established operating procedures that comply with the FCC’s Customer Proprietary Network Information (CPNI) rules (47 C.F.R. §§64.2001-64.2011).

## **LINE 610 - ABILITY TO FUNCTION IN EMERGENCY SITUATIONS**

Nehalem Communications (“the Company”) is able to function in emergency situations for both voice and broadband service. Back-up power is provided to the Company’s central offices by use of a generator and batteries that provide it with eight hours of emergency power that is also used to provide service to the broadband network. In addition, Nehalem field electronics have eight to 12 hours of back-up power by use of generators and batteries.

The Company has synchronous optical network (“SONET”) technology deployed in its core fiber optic network that is self-healing and will automatically reroute traffic should a fiber cut occur. The Company also has sufficient spare cards for its fiber optic network to provide almost instantaneous replacement should there ever be a card failure in the core network and has proper staff in place to repair any fiber cuts in a timely manner. The Company has connectivity with neighboring telephone exchanges as well as the LATA tandem to provide diverse options to reroute traffic should an emergency arise.

The Company has developed and trained its staff on network preparedness plans in case of emergency situations. The Company is prepared and capable of managing traffic spikes resulting from emergency situations and has sufficient switching capabilities to handle such situations.

## **LINE 1010 – VOICE SERVICES RATE COMPARABILITY**

The Wireline Competition Bureau’s 2017 reasonable comparability benchmark for voice services is \$49.51, which includes the federal subscriber line charge (“SLC”).<sup>1</sup>

In all of the exchanges served by Nehalem Communications (“the Company”), the single-line residential local rate in effect as of January 1, 2017 was \$16.60. When the federal SLC (\$6.50) is included, the total rate was \$23.10. Therefore, the Company’s pricing of fixed voice services is less than the reasonable comparability benchmark of \$49.51.

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<sup>1</sup> *Wireline Competition Bureau Announces Results of 2017 Urban Rate Survey for Fixed Voice and Broadband Services, Posting of Survey Data and Explanatory Notes, and Required Minimum Usage Allowance for ETCs Subject to Broadband Public Interest Obligations*, Public Notice, WC Docket No. 10-90, 32 FCC Rcd 1358 (2017).

## **LINE 1030 – BROADBAND SERVICES RATE COMPARABILITY**

As of January 1, 2017, Nehalem Communications was charging a residential rate of \$39.95 for broadband providing 10 Mbps download, 1 Mbps upload, and an unlimited usage allowance. This rate is lower than \$77.98, which is the 2017 reasonable comparability benchmark for the same offering established by the Wireline Competition Bureau.<sup>1</sup>

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<sup>1</sup> *Wireline Competition Bureau Announces Results of 2017 Urban Rate Survey for Fixed Voice and Broadband Services, Posting of Survey Data and Explanatory Notes, and Required Minimum Usage Allowance for ETCs Subject to Broadband Public Interest Obligations*, Public Notice, WC Docket No. 10-90, 32 FCC Rcd 1358 (2017).

## **LINE 1210 – TERMS & CONDITIONS OF VOICE TELEPHONY LIFELINE PLANS**

Residential customers of Nehalem Communications (“the Company”) who qualify for the Lifeline Program receive a discount of \$12.75 (\$9.25 federal discount + \$3.50 state discount) on local voice telephony service.

In all of the Company’s exchanges, the Lifeline single-line residential rate, including any mandatory extended area service charge and the federal subscriber line charge (“SLC”), is \$10.35 (\$23.10 standard rate - \$12.75 discount).

All single-line residential customers, including Lifeline customers, have an unlimited number of minutes for calls made within their local calling area.

For calls outside of the local calling area, Lifeline customers may subscribe to long distance service offered by the Company at a non-discounted rate of \$.08/minute (with a \$3.95/month fee), or \$.14/minute with no monthly fee. Lifeline subscribers may also choose another long distance carrier. Customers may elect to subscribe to toll blocking at no charge.

The Company does not disconnect the service of Lifeline subscribers for the non-payment of toll charges. However, the Company reserves the right to implement toll blocking, at no charge, if the customer incurs a significant balance of unpaid toll bills.

Lifeline Program reductions do not apply to additional services such as custom calling features. Lifeline customers may subscribe to these services, where available, at the same rates offered to other customers.

Lifeline customers may subscribe to any residential voice telephony service package that is generally available to the public and will receive a \$12.75 discount off the regular price of the package

Additional information regarding the terms and conditions of voice telephony Lifeline plans can be found at [http://www.rtc.net/Oregon/Lifeline\\_Program.aspx](http://www.rtc.net/Oregon/Lifeline_Program.aspx).

**LINE 3010 – CERTIFICATION OF PUBLIC INTEREST OBLIGATIONS**

Nehalem Communications (“the Company”) hereby certifies that the Company has taken reasonable steps to provide upon reasonable request broadband service at actual speeds of at least 10 Mbps downstream/1 Mbps upstream, with latency suitable for real-time applications, including Voice over Internet Protocol, and usage capacity that is reasonably comparable to comparable offerings in urban areas, and that requests for such service were met within a reasonable amount of time.

**NEHALEM TELECOMMUNICATIONS, INC.**

Independent Auditor's Report and Financial Statements

December 31, 2016 and 2015



NEHALEM TELECOMMUNICATIONS, INC.  
GLENN'S FERRY, IDAHO

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Nehalem Telecommunications, Inc.  
Glenns Ferry, Idaho

We have audited the accompanying financial statements of Nehalem Telecommunications, Inc. (an Idaho corporation), which comprise the balance sheet as of December 31, 2016, and the related statements of income, stockholder's equity and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nehalem Telecommunications, Inc. as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Prior Year Audited by Other Auditors***

The 2015 financial statements were audited by other auditors and their report thereon, dated April 25, 2016, expressed an unmodified opinion.

*BKD, LLP*

Madison, Wisconsin  
April 28, 2017

NEHALEM TELECOMMUNICATIONS, INC.  
GLENN'S FERRY, IDAHO

BALANCE SHEETS  
December 31, 2016 and 2015

	2016	2015
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents		
Accounts receivable:		
Due from customers		
Interexchange carriers		
Affiliates		
Other		
Materials and supplies at average cost		
Inventory at average cost		
Prepayments		
OTHER NONCURRENT ASSETS		
Investments		
Deferred charges		
Intangibles		
PROPERTY, PLANT AND EQUIPMENT		
Telephone plant in service		
Less accumulated depreciation		
Plant acquisition adjustment, net		
TOTAL ASSETS		

See Notes to Financial Statements

NEHALEM TELECOMMUNICATIONS, INC.  
GLENN'S FERRY, IDAHO

BALANCE SHEETS  
December 31, 2016 and 2015

	2016	2015
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
CURRENT LIABILITIES		
Current portion of long-term debt		
Accounts payable:		
Interexchange carriers		
Affiliates		
Other		
Customer deposits		
Accrued taxes		
Accrued interest		
Other accrued liabilities		
LONG-TERM DEBT, LESS CURRENT PORTION		
OTHER NONCURRENT LIABILITIES AND DEFERRED CREDITS		
Deferred income taxes		
STOCKHOLDER'S EQUITY		
Common stock - no par value, 10,000 shares authorized, 1,000 shares issued and outstanding		
Retained earnings		
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY		

See Notes to Financial Statements

NEHALEM TELECOMMUNICATIONS, INC.  
GLENN'S FERRY, IDAHO

STATEMENTS OF INCOME  
Years ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Local network services		
Network access services		
Long distance services		
Internet services		
Other nonregulated services		
Miscellaneous		
Uncollectible		
OPERATING EXPENSES		
Plant specific operations		
Plant nonspecific operations		
Cost of long distance services		
Cost of internet services		
Cost of nonregulated services		
Depreciation and amortization		
Customer operations		
Corporate operations		
General taxes		
OPERATING INCOME		
OTHER INCOME (EXPENSE)		
Interest and dividend income		
Allowance for funds used during construction		
Interest expense		
Other, net		
INCOME BEFORE INCOME TAXES		
INCOME TAXES		
NET INCOME		

See Notes to Financial Statements

NEHALEM TELECOMMUNICATIONS, INC.  
GLENN'S FERRY, IDAHO

STATEMENTS OF STOCKHOLDER'S EQUITY  
Years Ended December 31, 2016 and 2015

	Common Stock Shares	Common Stock Amount	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2014				
Net income				
Balance at December 31, 2015				
Net income				
Balance at December 31, 2015				

See Notes to Financial Statements

NEHALEM TELECOMMUNICATIONS, INC.  
GLENN'S FERRY, IDAHO

STATEMENTS OF CASH FLOWS  
Years ended December 31, 2016 and 2015

	2016	2015
OPERATING ACTIVITIES		
Net income		
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Depreciation		
Amortization		
Deferred income taxes		
Patronage in business conducted with cooperatives		
Allowance for funds used during construction		
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable		
Material and supplies and inventory		
Deferred charges		
Prepayments		
Increase (Decrease) in:		
Accounts payable		
Accrued taxes		
Customer deposits		
Accrued interest		
Other accrued liabilities		
Net cash provided by operating activities		
INVESTING ACTIVITIES		
Capital expenditures		
Net cash used in investing activities		
FINANCING ACTIVITIES		
Repayment of long-term debt		
Net cash used in financing activities		
Net Increase (Decrease) in Cash and Cash Equivalents		
Cash and Cash Equivalents at Beginning of Year		
Cash and Cash Equivalents at End of Year		

See Notes to Financial Statements

**NEHALEM TELECOMMUNICATIONS, INC.  
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

Nehalem Telecommunications, Inc. (herein referred to as "the Company") is a provider of telecommunications exchange, local access, long distance and internet services in a service area located primarily in northwest Oregon. The Company is a wholly-owned subsidiary of Rural Telephone Company, which is a wholly-owned subsidiary of Martell Enterprises, Inc., both of which are Idaho corporations.

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America. Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management has evaluated subsequent events through April 28, 2017, the date the financial statements were available for issue. Telephone operations reflect practices appropriate to the telephone industry. The accounting records of the telephone company are maintained in accordance with the Uniform System of Accounts for Class A and B Telephone Companies prescribed by the Federal Communications Commission (FCC) as modified by the state regulatory authority.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected. As a result, the Company determined an allowance for doubtful accounts was not needed for the years ended December 31, 2016 and 2015.

Inventory

Inventory is stated at the lower of cost or market with cost determined by the average cost method.

Investments

Nonmarketable equity investments are stated at cost.

NEHALEM TELECOMMUNICATIONS, INC.  
GLENN'S FERRY, IDAHO

NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment

Telecommunications plant is capitalized at original cost including the capitalized cost of salaries and wages, materials, certain payroll taxes, employee benefits and interest incurred during the construction period.

The Company provides for depreciation for financial reporting purposes on the straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property as approved by the state regulatory authority. These estimates are subject to change in the near term.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings	30 years
Furniture and office equipment	7-15 years
Vehicles and work equipment	9 years
Switching equipment	10-12 years
Outside plant	20-50 years

The Company capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred each year was:

	2016	2015
Interest costs capitalized		
Interest costs charged to expense		
Total interest incurred		

Renewals and betterments of units of telephone property are charged to telephone plant in service. When telephone plant is retired, its cost is removed from the asset account and charged against accumulated depreciation less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable telephone property. Repairs and renewals of minor items of telephone property are included in plant specific operations expense.

Repairs of other property included in telephone plant in service, as well as renewals of minor items, are charged to plant specific operations expense. A gain or loss is recognized when other property is sold or retired.

**NEHALEM TELECOMMUNICATIONS, INC.  
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Asset Retirement Obligations

Generally accepted accounting principles require entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset.

The Company has determined it does not have a material legal obligation to remove long-lived assets, and accordingly, there have been no liabilities recorded for the years ended December 31, 2016 and 2015.

Software

The Company capitalizes costs (including right-to-use fees) associated with externally acquired software for internal use. Software maintenance and training costs are expensed as incurred. Capitalized software is generally amortized on a straight-line basis over its useful life, not to exceed five years.

Long-Lived Assets

The Company would provide for impairment losses on long-lived assets when no longer cost of service regulated, indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Based on current conditions, management does not believe any of its long-lived assets are impaired.

Income Taxes

Income taxes are accounted for using a liability method and provide for the tax effects of transactions reported in the financial statements including both taxes currently due and deferred. Deferred taxes are adjusted to reflect deferred tax consequences at current enacted tax rates. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes arise from the effects of accelerated depreciation on property and equipment for tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible, when the assets and liabilities are recovered or settled.

Revenue Recognition

The Company recognizes revenues when earned regardless of the period in which they are billed. The Company is required to provide telephone service to subscribers within its defined service territory.

**NEHALEM TELECOMMUNICATIONS, INC.  
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenue Recognition (Continued)

Local network service and internet revenues are recognized over the period a subscriber is connected to the network.

Network access and long distance service revenues are derived from charges for access to the Company's local exchange network. The interstate portion of access revenues is based on a cost separation procedure settlement formula administered by the National Exchange Carrier Association (NECA) which is regulated by the FCC. The intrastate portion of access revenues are billed based on an individual company tariff access charge structure approved by the state regulatory authority. The tariffs developed from this structure are used to charge the connecting carrier and recognize revenues in the period the traffic is transported based on the minutes of traffic carried. Long distance revenues are recognized at the time a call is placed based on the minutes of traffic processed at contracted rates.

Reported network access revenues are estimates subject to settlement adjustments in the near term resulting from changes in expense and plant investment levels and rate of return experience.

The Company recognizes internet revenue as the total amount earned from charges to customers in the statement of operations as internet services. In accordance with tariffs filed with the FCC by NECA, the Company charges its non-regulated internet operations the tariffed wholesale DSL rate for the use of the Company's regulated plant facilities. These charges in network access services and cost of internet services totaled [REDACTED] and [REDACTED] in 2016 and 2015, respectively.

Revenues from network access were increased by approximately [REDACTED] in 2015 as a result of adjustments to prior years' estimates.

The Company recognizes taxes charged to customers on a net basis.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were [REDACTED] and [REDACTED] in 2016 and 2015, respectively.

NEHALEM TELECOMMUNICATIONS, INC.  
GLENN'S FERRY, IDAHO

NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company determines the fair value of its financial assets and liabilities based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels of inputs may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

NOTE 2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following:

	2016	2015
Telephone plant in service:		
Land		
Buildings		
Furniture and office equipment		
Vehicles and work equipment		
Switching equipment		
Outside plant		
Total property, plant and equipment		

Depreciation on depreciable property resulted in composite rates of [REDACTED] and [REDACTED] for 2016 and 2015, respectively.

Plant acquisition adjustments of [REDACTED] have been approved by the state regulatory authority and are included as a component of property, plant and equipment due to the underlying assets which produced the adjustment. The adjustments are being amortized over 15 years.

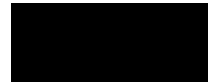
NEHALEM TELECOMMUNICATIONS, INC.  
GLENN'S FERRY, IDAHO

NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015

NOTE 2. PROPERTY, PLANT AND EQUIPMENT (Continued)

Estimated amortization expense for the next two years is expected to be:

2017  
2018



NOTE 3. INCOME TAXES

Income taxes reflected in the Statements of Income consist of the following:

	2016	2015
Federal income taxes:		
Current tax expense		
Deferred tax expense (benefit)		
State income taxes:		
Current tax expense		
Deferred tax expense		
Total income tax expense		

No cash was paid for income taxes during 2016 and 2015, however the Company paid its parent company their share of income taxes due through the intercompany payable account. This amounted to [REDACTED] and [REDACTED] in 2016 and 2015, respectively.

Deferred federal and state tax liabilities and assets reflected in the Balance Sheets are summarized as follows:

	2016	2015
Deferred Tax Liabilities		
Federal		
State		
Total Deferred Tax Liabilities		
Net Deferred Tax Liabilities - Long-Term		

The tax provision differs from the expense that would result from applying the federal statutory rates to operations before income taxes because of the effect of state income taxes.

The Company has evaluated its income tax positions and determined that there are no uncertain income tax positions that need to be recorded or reported in the consolidated financial statements at December 31, 2016 and 2015.

The Company's federal and state income tax returns for years 2013 to present remain subject to examination.

**NEHALEM TELECOMMUNICATIONS, INC.  
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 4. INVESTMENTS**

Investments consist of the following at December 31:

	December 31,	
	2016	2015
Cobank patronage capital certificates		
Rural Telephone Finance Cooperative patronage capital certificates		
National Rural Telecommunications Cooperative patronage capital certificates		
Other		

Because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs, management has determined it is not practical to estimate the fair value of these investments. However, management believes that the carrying amount of these investments at December 31, 2016 is not impaired.

**NOTE 5. LONG-TERM DEBT**

Long-term debt consists of:

	2016	2015
Umpqua Bank, 5.00%		
Less current portion		

The annual requirements for principal payments on long-term debt for the next two years are as follows:

2017	
2018	

Deposit accounts of the Company and its affiliates are pledged as security for the long-term debt under the loan agreement with Umpqua Bank. These mortgage notes are to be repaid in equal monthly installments covering principal and interest beginning after date of issue and expiring by 2018.

The security and loan agreements underlying the Umpqua Bank note contains certain restrictions on distributions to stockholders, and investment in or loans to others. The Company is required to maintain certain financial ratios for long-term debt to net worth and debt service coverage. This note is guaranteed by an affiliated entity.

Cash paid for interest net of amounts capitalized for 2016 and 2015 totaled [REDACTED] and [REDACTED], respectively.

**NEHALEM TELECOMMUNICATIONS, INC.  
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 6. CONCENTRATIONS OF CREDIT RISK**

The Company grants credit to local service customers, all of whom are located in the franchised service area, and telecommunications intrastate and interstate long distance carriers. The company is subject to competition for telecommunications services including telecommunications exchange services offered by other providers in the franchised area.

The Company received [REDACTED] of its 2016 revenues from access revenues and assistance provided by the Federal Universal Service Fund. As a result of the Telecommunications Act of 1996, the manner in which access revenues and Universal Service Funds are determined is currently being modified by regulatory bodies.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents.

The Company maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

**NOTE 7. OPERATING LEASES**

The Company leases facilities to a telecommunications provider under a lease agreement. The initial agreement was effective June 2013 and was amended September 2015. The initial term of the agreement is 10 years. Under this agreement, the Company recognized [REDACTED] and [REDACTED] of revenue during the years ended December 31, 2016 and 2015, respectively.

Minimum payments to be received for the operating lease having initial or remaining non-cancelable terms in excess of one year are as follows:

Year Ending December 31,	Amount
2017	[REDACTED]
2018	
2019	
2020	
2021	

**NOTE 8. EMPLOYEE BENEFITS**

The Company has a Safe Harbor 401(k) profit sharing plan (Plan) sponsored by its parent company. The plan covers all employees who meet certain eligibility requirements under the Plan. Eligible participants may defer wages to their employee deferral accounts subject to specific limitations set by the Internal Revenue Service. Pension costs expensed and capitalized for 2016 and 2015 were [REDACTED] and [REDACTED], respectively.

NEHALEM TELECOMMUNICATIONS, INC.  
GLENN'S FERRY, IDAHO

NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015

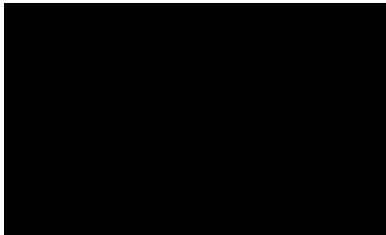
**NOTE 9. REGULATORY ACCOUNTING**

For its telephone operations, the Company follows generally accepted accounting principles for regulated enterprises. Accordingly, the Company defers certain cost and obligations and depreciates plant and equipment over lives approved by regulators. While the Company continues to believe the current regulatory and competitive environment supports this accounting treatment, should conditions change the Company would be required to write-off these deferred cost and obligations and evaluate the net carrying value of its plant and equipment for any impairment losses absent the future recovery currently permitted by the regulators.

**NOTE 10. RELATED PARTY TRANSACTIONS**

The Company and its parent, Rural Telephone Company (Rural), have a service agreement in which Rural provides management and operational services to the Company. Rural provided [REDACTED] and [REDACTED] of such services, materials, and other expenditures to the Company during 2016 and 2015, respectively. Rural also pays some expenses on behalf of the Company, which are directly allocated through the use of intercompany receivable and payable accounts.

Accounts receivable (payable) affiliates at December 31 consists of the following:

	2016	2015
Accounts receivable, stockholders and employees		
Accounts receivable, Martell Enterprises		
Accounts receivable, Pend Oreille Telephone Company		
Accounts payable, Rural Telephone Company		

The Company leases equipment from Little Valley Elk Ranch (LVER). Leasing expenses were [REDACTED] and [REDACTED] in 2016 and 2015, respectively. LVER is a related party to the Company as shareholders of the Company own LVER.

**NEHALEM TELECOMMUNICATIONS, INC.  
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 11. REGULATORY MATTERS**

The Company received [REDACTED] of its 2016 revenues from access revenues and assistance provided by the Federal Universal Service Fund. The manner in which access revenues and Universal Service funds are determined has been modified in several recent Federal Communications Commission proceedings. Changes include modifications to rate-of-return support including caps on the recovery of certain expenditures, and reductions in terminating access charges billed with eventual transition to a bill-and-keep framework for the exchange of traffic between carriers.

On March 30, 2016, the FCC released a Report and Order, Order on Reconsideration, and Further Notice of Proposed Rulemaking to reform USF. The order in this proceeding (1) provides support for standalone broadband; (2) requires broadband deployment based on the number of locations lacking service and cost of providing service; (3) requires allowances for capital investments and further limits operational expenses; and (4) phases out support for area served by qualifying competitors. In addition, the FCC created a new Universal Service Support mechanism named the Alternative Connect America Model (A-CAM). The Order allows eligible rate-of-return carriers to elect A-CAM or remain on a revised version of the legacy rate-of-return funding. Carriers not eligible for the A-CAM will fall under the revised version of the legacy rate-of-return funding. The Order provides a total budget of [REDACTED] for Universal Service Support to cover the A-CAM and legacy rate-of-return mechanisms.

The Company was not eligible to elect A-CAM support, and therefore will remain a legacy rate-of-return carrier. The amount of support that will be received is not certain due to constraints on the FCC's budget.

Whether a rate-of-return carrier chooses model-based support or remains on legacy mechanisms, it will be required to meet service obligations, adhered to reporting obligations, and retain records.